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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

BOB STUMP - CHAIRMAN
 GARY PIERCE
 BRENDA BURNS
 BOB BURNS
 SUSAN BITTER SMITH

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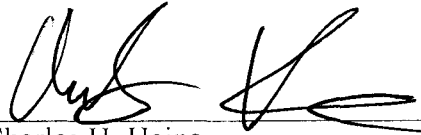
IN THE MATTER OF THE APPLICATION OF
 COMMUNITY WATER COMPANY OF
 GREEN VALLEY FOR AUTHORITY TO
 BORROW UP TO \$3.4 MILLION FROM
 COMPASS BANK AND COMPASS
 MORTGAGE CORPORATION FOR THE
 PURPOSES OF (1) REFINANCING UP TO
 \$2.2 MILLION IN EXISTING LONG-TERM
 DEBT; AND (2) ISSUING AN ADDITIONAL
 \$1.2 MILLION IN LONG-TERM DEBT,
 UNDER A.R.S. §§ 40-301 AND 40-302.

DOCKET NO. W-02304A-14-0041

**NOTICE OF FILING STAFF RESPONSE
 TO PROCEDURAL ORDER**

On July 11, 2014, a procedural order was filed in the above captioned matter that posed several questions to Staff. Staff hereby provides notice of filing the attached memos prepared by Teresa Hunsaker and Jian Liu responding to the procedural order questions.

RESPECTFULLY SUBMITTED this 31st day of July, 2014.

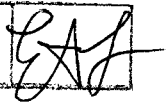

 Charles H. Hains
 Attorney, Legal Division
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007
 (602) 542-3402

Original and thirteen (13) copies of
 the foregoing filed this 31st day of
July, 2014, with:

Docket Control
 Arizona Corporation Commission
 1200 West Washington Street
 Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

JUL 31 2014

DOCKETED BY 

1 Copy of the foregoing mailed this
2 31st day of July,
2014, to:

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STAFF'S REPLY TO THE PROCEDURAL ORDER DATED JULY 11, 2014
COMMUNITY WATER COMPANY OF GREEN VALLEY
DOCKET NO. W-02304A-14-0041

Pursuant to the procedural order issued on July 11, 2014, the Administrative Law Judge ("ALJ") ordered Staff to address the following topic: Provide a detailed financial analysis of the Company (similar to the analysis performed for Staff's recommended authorization to refinance \$1,120,000 in existing long-term debt) to reflect the issuance of a \$3,400,000, 20 year amortizing loan, at both the taxable swap rate of 5.80 percent per annum and the tax exempt swap rate of 3.97 percent per annum.

Although the question posed by the procedural order states \$1,120,000, Staff's recommends approval for the authorization of \$2,120,000 of debt, along with Staff's recommended conditions and thus responds as follows.

Consistent with the ALJ's request, Staff has provided detailed financial analysis of Community Water Company of Green Valley's ("Company") application to reflect the issuance of \$3,400,000 of debt as originally requested by the Company. Staff's analysis is presented in ALJ Requested Schedule TBH-1. Column [A] of the schedule reflects the Company's revised historical financial information for the year ended December 31, 2013, and Column [B] presents pro forma financial information that modifies Column [A] to reflect issuance of a \$3,400,000, 20-year amortizing loan at the Taxable Swap Rate of 5.80 percent per annum. Column [C] presents pro forma financial information that modifies Column [A] to reflect issuance of a \$3,400,000, 20-year amortizing loan at the Tax Exempt Swap Rate of 3.97 percent per annum.

ALJ Requested Schedule TBH-2 reflects Income Statements utilized for selected financial information. ALJ Requested Schedule TBH-2 Column [A] reflects the 2012 Income Statement provided with the Annual Report to the Commission, Column [B] reflects the Company Actual 2012 Income Statement, Column [C] reflects the Company Projected 2013 Income Statement and Column [D] reflects the Company Projected 2014 Income Statement.

ALJ Requested Schedule TBH-3 is the Loan Amortization Schedule for a 20-year loan at the Taxable Swap Rate of 5.80 percent per annum. Based on ALJ Requested Schedule TBH-3, the remaining principal due in 2029 is approximately \$1,245,742. ALJ Requested Schedule TBH-4 is the Loan Amortization Schedule for a 20-year loan at the Tax Exempt Swap Rate of 3.97 percent per annum. Based on ALJ Requested Schedule TBH-4, the remaining principal due in 2029 is approximately \$1,116,646.

On ALJ Requested Schedule TBH-1, the Company's current 5.16 DSC results as of December 31, 2013, with existing debt from Column [A] Line 13. A pro forma 4.30 DSC results for the scenario described above for Column [B] Line 13, and a pro forma 5.02 DSC results for the scenario described above for Column [C] Line 13. The DSC from both scenarios shows that cash flow from operations is sufficient to cover debt service.

Staff continues to recommend the Company be granted the authorization to enter into a loan in an amount not to exceed \$2,120,000 for existing long-term debt pursuant to a loan agreement with Compass Bank and Compass Mortgage Corporation and at an interest rate not to exceed 5.8 percent per annum with a 20-year amortization and a 15-year maturity with any principal not paid due in 2029. The remainder of the Company's \$3,400,000 request for authorization to borrow funds should be denied.

Originator: Teresa Hunsaker

Per Procedural Order dated July 11, 2014 Detailed Financial Analysis for \$3.4 Million over 20 years at 5.8% and 3.97%

FINANCIAL ANALYSIS

Selected Financial Information

	[A] ¹		[B] ²		[C] ³	
	12/31/2013		Tax Swap Rate Pro Forma		Tax Exempt Swap Rate Pro Forma	
1 Operating Income	\$	363,147	\$	363,147	\$	363,147
2 Depreciation & Amort.		874,279		874,279		874,279
3 Income Tax Expense		0		0		0
4						
5 Interest Expense		99,373		194,757		132,926
6 Repayment of Principal		140,500		92,859		113,669
7						
8						
9 TIER						
10 [1+3] ÷ [5]		3.65		1.86		2.73
11						
12 DSC						
13 [1+2+3] ÷ [5+6]		5.16		4.30		5.02
14						
15						
16 Capital Structure						
17						
18 Short-term Debt		460,752 4.0%		553,611 4.4% ⁴		574,421 4.6% ⁴
19						
20 Long-term Debt ⁵		2,236,291 19.6%		3,307,141 26.3%		3,286,331 26.1%
21						
22 Common Equity		8,735,686 76.4%		8,735,686 69.4%		8,735,686 69.4%
23						
24 Total Capital	\$	11,432,729 100.0%	\$	12,596,438 100.0%	\$	12,596,438 100.0%
25						
26						
27 Capital Structure (inclusive of AIAC and Net CIAC)						
28						
29 Short-term Debt		460,752 1.5%		553,611 1.7%		574,421 1.8%
30						
31 Long-term Debt ⁵		2,236,291 7.3%		3,307,141 10.4%		3,286,331 10.3%
32						
33 Common Equity		8,735,686 28.5%		8,735,686 27.4%		8,735,686 27.4%
34						
35 Advances in Aid of Construction ("AIAC")		7,392,319 24.1%		7,392,319 23.2%		7,392,319 23.2%
36						
37 Contributions in Aid of Construction ("CIAC") ⁶		11,875,343 38.7%		11,875,343 37.3%		11,875,343 37.3%
38						
39 Total Capital (Inclusive of AIAC and CIAC) ⁷	\$	30,700,391 100.0%	\$	31,864,100 100.0%	\$	31,864,100 100.0%
40						
41						
42 AIAC and CIAC Funding Ratio ⁸		62.8%		60.5%		60.5%
43 (35+37)/(39)						

¹ Column [A] is based on financial information for the year ended December 31, 2013 Unaudited Unconsolidated Financial Statements. Company revised with Data Request.

² See ALJ Requested Schedule TBH-2, Column [C].

³ Column [B] is Column [A] modified to reflect issuance of the proposed \$3.4 debt financing amortized for 20 year term at 5.8 percent per annum based on Taxable Swap Rate. See ALJ Requested Schedule TBH-3. As requested in Procedural Order dated July 11, 2014.

⁴ Column [C] is Column [A] modified to reflect issuance of the proposed \$3.4M debt financing amortized for 20 year term at 3.97 percent per annum based on Tax Exempt Swap Rate. See ALJ Requested Schedule TBH-4. As requested in Procedural Order dated July 11, 2014.

⁵ Pro Forma Short-term Debt represents the first year principal repayment on the proposed loan.

⁶ Long Term Debt based on balance of the \$3.4 million loan at the end of year one. As requested in Procedural Order dated July 11, 2014.

⁷ Net CIAC balance (i.e. less: accumulated amortization of contributions).

⁸ Total Capital does not include of the amount for Maintenance Reserves of \$145,177. Maintenance Reserves not included in Capital Structure for the purpose of this Financial Analysis.

⁹ Staff typically recommends that combined AIAC and Net CIAC funding not exceed 30 percent of total capital, inclusive of AIAC and Net CIAC, for private and investor owned utilities.

INCOME STATEMENTS				
	[A] 2012 Annual Report Income Statement ¹	[B] Company 2012 Actual Income Statement ²	[C] Company 2013 Projected Income Statement ^{2,3}	[D] Company 2014 Projected Income Statement ²
Revenues				
Metered Water Revenues	\$ 3,786,566	\$ 3,776,075	\$ 3,745,092	\$ 3,749,600
Miscellaneous Service Revenue	14,905			
Other Water Revenue	65,264	90,659	88,069	91,400
Total Revenues	\$ 3,866,735	\$ 3,866,734	\$ 3,833,161	\$ 3,841,000
Operating Expenses⁴				
General and Administrative		769,241	878,494	799,400
Pumping		306,867	291,345	377,800
Transmission & Distribution		432,613	372,676	442,400
Customer Accounting		416,394	411,975	478,800
Water Treatment		124,409	152,155	179,400
Source of Supply		18,111	18,229	19,500
Other Taxes (Property & Payroll)		203,998	221,290	235,400
Subtotal Operating Expenses		2,271,633	2,346,164	2,532,700
Salaries and Wages	841,197			
Purchased Power	223,175			
Chemicals	28,170			
Repairs and Maintenance	81,103			
Office Supplies Expense	5,676			
Outside Services	284,788			
Contractual Services - Testing	9,221			
Rent - Building	1,941			
Rent - Equipment				
Transportation Expense	69,921			
Insurance - General Liability	51,337			
Insurance - Other	160,990			
Regulatory Expense - Other	24,000			
Miscellaneous Expense	267,328			
Depreciation and Amortization Expense	822,813	812,150	874,279	931,400
Taxes Other than Income	356,799	271,256 ⁵	249,571 ⁵	236,900 ⁵
Property Taxes	126,581			
Total Operating Expenses	\$ 3,355,040	\$ 3,355,039	\$ 3,470,014	\$ 3,701,000
Operating Income	\$ 511,695	\$ 511,695	\$ 363,147	\$ 140,000
Other Income (Expense)				
Interest and Dividend Income	\$ 23,960			
Non-Utility Income	146,357	170,079 ⁶	37,688 ⁶	34,800 ⁶
Miscellaneous Non-Utility Expenses	-			
Interest Expense	(114,758)	(114,758)	(108,410)	(139,000)
Total Other Income (Expense)	\$ 55,559	\$ 55,321	\$ (70,722)	\$ (104,200)
Net Income (Loss)	\$ 567,254	\$ 567,016	\$ 292,425	\$ 35,800

¹ 2012 Annual Report Income Statement docketed to the Commission.

² Unconsolidated 2014 Income Statements docketed on February 19, 2014 for W-02304A-14-0041

³ Consolidated 2013 Financial Statements docketed on April 14, 2014 for W-02304A-14-0041.

⁴ Operating Expenses were provided within these specific expense categories not those required by reporting on Annual Report.

⁵ Sales Taxes Adjusted from Revenues in Projected Income Statements

⁶ Net Other Expenses for Non-Operating Expenses

Community Water Company of Green Valley
Docket No. W-02304A-14-0041
Application For Financing of Long-Term Debt

ALJ Requested Schedule TBH-3

LOAN DATA:

Loan Amount Requested	\$3,400,000 Per Procedural Order dated July 11, 2014		
Down Payment:	\$0		
Amount Financed:	3,400,000		
Number of years:	20	Compounding Periods:	12
Interest rate (r):	5.80%	APR:	5.96%

LOAN AMORTIZATION SCHEDULE

Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$23,967.99	\$3,400,000.00	\$16,433.33	\$7,534.66	\$3,392,465.34			
2	23,967.99	3,392,465.34	16,396.92	7,571.08	3,384,894.26			
3	23,967.99	3,384,894.26	16,360.32	7,607.67	3,377,286.59			
4	23,967.99	3,377,286.59	16,323.55	7,644.44	3,369,642.15			
5	23,967.99	3,369,642.15	16,286.60	7,681.39	3,361,960.76			
6	23,967.99	3,361,960.76	16,249.48	7,718.52	3,354,242.25			
7	23,967.99	3,354,242.25	16,212.17	7,755.82	3,346,486.42			
8	23,967.99	3,346,486.42	16,174.68	7,793.31	3,338,693.12			
9	23,967.99	3,338,693.12	16,137.02	7,830.98	3,330,862.14			
10	23,967.99	3,330,862.14	16,099.17	7,868.83	3,322,993.31			
11	23,967.99	3,322,993.31	16,061.13	7,906.86	3,315,086.46			
12	23,967.99	3,315,086.46	16,022.92	7,945.07	3,307,141.38	\$194,757.30	\$92,858.62	\$287,615.91

Principal Due after 180 payments	
180 Payment / 12 monthly payments =	15 years \$1,245,741.50

Community Water Company of Green Valley
Docket No. W-02304A-14-0041
Application For Financing of Long-Term Debt

ALJ Requested Schedule TBH-4

LOAN DATA:

Loan Amount Requested	\$3,400,000	Per Procedural Order dated July 11, 2014
Down Payment:	\$0	
Amount Financed:	3,400,000	
Number of years:	20	Compounding Periods: 12
Interest rate (r):	3.97%	APR: 4.04%

LOAN AMORTIZATION SCHEDULE

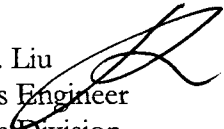
Period	Loan payment (1)	Beginning- of-month principal (2)	Payments		End-of-month principal [(2) - (4)] (5)	Annual Interest (6)	Annual Principal (7)	Annual Debt Payment (8)
			Interest [r * (2)] (3)	Principal [(1) - (3)] (4)				
1	\$20,549.62	\$3,400,000.00	\$11,248.33	\$9,301.29	\$3,390,698.71			
2	20,549.62	3,390,698.71	11,217.56	9,332.06	3,381,366.65			
3	20,549.62	3,381,366.65	11,186.69	9,362.94	3,372,003.71			
4	20,549.62	3,372,003.71	11,155.71	9,393.91	3,362,609.80			
5	20,549.62	3,362,609.80	11,124.63	9,424.99	3,353,184.81			
6	20,549.62	3,353,184.81	11,093.45	9,456.17	3,343,728.64			
7	20,549.62	3,343,728.64	11,062.17	9,487.45	3,334,241.18			
8	20,549.62	3,334,241.18	11,030.78	9,518.84	3,324,722.34			
9	20,549.62	3,324,722.34	10,999.29	9,550.33	3,315,172.01			
10	20,549.62	3,315,172.01	10,967.69	9,581.93	3,305,590.08			
11	20,549.62	3,305,590.08	10,935.99	9,613.63	3,295,976.45			
12	20,549.62	3,295,976.45	10,904.19	9,645.44	3,286,331.01	\$132,926.50	\$113,668.99	\$246,595.49

Principal Due after 180 payments	
180 Payment / 12 monthly payments =	15 years \$1,116,646.11

MEMORANDUM

DATE: July 31, 2014

TO: Teresa Hunsaker
Public Utilities Analyst II
Utilities Division

FROM: Jian W. Liu 
Utilities Engineer
Utilities Division

RE: Staff's Reply to the Company's Response to Staff Report
Community Water Company of Green Valley
Docket No. W-02304A-14-0041 (Financing)

Introduction and Background

On February 12, 2014, Community Water Company of Green Valley ("CWCGV" or the "Company") filed an application with the Arizona Corporation Commission ("ACC" or "Commission") for authority to borrow up to \$3.4 million from Compass Bank and Compass Mortgage Corporation ("Compass") for two purposes: (1) to refinance up to \$2.2 million in existing long term debt; and (2) to issue up to \$1.2 million in additional debt to remove the Company's existing 1,000,000 Reservoir No. 2 ("Existing Storage Tank"), and install an aboveground 2,000,000 gallon steel storage tank ("New Storage Tank").

On June 23, 2014, the Commission's Utilities Division ("Staff") filed a Staff Report recommending approval for authorization to refinance up to \$2,120,000 in existing long-term debt, along with recommended conditions. Staff further recommended denial of the Company's financing request to issue \$1,200,000 in long-term debt to install the New Storage Tank.

On July 2, 2014, CWCGV filed a Response to Staff Report objecting to, among other things, Staff's recommended denial of the Company's financing request to install the New Storage Tank.

In a Procedural Order dated July 11, 2014, the Administrative Law Judge ("ALJ") ORDERED that Staff shall file a Reply to the Company's Response no later than July 31, 2014, to address the following topics:

ALJ Question No. 1: Provide Staff's position as to whether the Existing Storage Tank should be replaced by a comparable sized 1,000,000 gallon storage tank. If Staff believes that the Existing Storage Tank does not need to be so replaced, provide an engineering analysis to explain why not.

Staff¹ Response: Staff believes that the Existing Storage Tank should be closed and that there are more cost effective solutions to address the concerns the Company has raised in support of tank replacement. The Company will have adequate storage capacity without the Existing Storage Tank. Arizona Department of Environmental Quality ("ADEQ") storage requirements, pursuant to Arizona Administrative Code ("AAC") R18-5-503, are as follows.

- A. The minimum storage capacity for a CWS¹ or a non-community water system that serves a residential population or a school shall be equal to the average daily demand during the peak month of the year. Storage capacity may be based on existing consumption and phased as the water system expands.
- B. The minimum storage capacity for a multiple-well system for a CWS or a non-community water system that serves a residential population or a school may be reduced by the amount of the total daily production capacity minus the production from the largest producing well.

Based on CWCGV 2013 water use data, the average daily demand during the peak month in 2013 was 2,318,533 gallons per day. If CWCGV has only one well, the minimum storage capacity needed for the Company's water system is 2,318,533 gallons. However, CWCGV's existing water system consists of four wells capable of producing approximately 6,150 gallons per minute ("GPM") of total capacity, and four storage facilities with total storage capacity of 5,600,000 gallons.

Staff has inquired of the Company what conditions it assumed in order to determine it needs the additional storage capacity offered by replacing the existing reservoir with a storage tank 1 million gallons greater in capacity. CWCGV assumes for planning purposes that a major power outage is in effect and no production is possible². CWCGV assumes a power outage lasting 48 hours, that all the Company's wells have no production for the duration of the 48 hour power outage and that the customers still use the same amount of water as during the peak month.

Staff's recommendation to investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator can power the well pumps in case of an emergency is reasonable and should be adapted. CWCGV installed two (2) generators at the well-sites in 2006. Now the Company lists numerous concerns regarding the on-site generators. During Staff's discovery period, Staff sent out six (6) sets of DRs. The Company has consistently stated that the potential for a prolonged power failure by Tucson Electric Power Company ("TEP") is the top reason why the new storage facility is needed. Therefore, Staff's recommendation to investigate the possibility of upgrading one of its two on-site generators so the upgraded on-site generator can power the well pumps in case of an emergency is directly responsive to the concern CWCGV is attempting to address, is reasonable and should be adapted.

¹ Community Water System

² Data Requests ("DR") No. 4

ALJ Question No. 2: Explain Staff's position on each of those claimed benefits (listed below) and whether and to what extent Staff considered them in reaching its recommendations.

The Company claims that the New Storage Tank will benefit the water system by:

- 1) reducing pumping costs at Well No. 10;
Staff Response: The Company has not demonstrated how much the pumping costs at Well No. 10 can be reduced. If Staff's recommendations are adapted, CWCGV can save up to \$1.2 million.
- 2) providing 48 hours of emergency water supply;
Staff Response: See Staff's Response to ALJ Question No. 1.
- 3) eliminating the need for a pressure pump at the Reservoir No. 2 site;
Staff Response: There is no need for a pressure pump at the Reservoir No. 2 site if it is closed.
- 4) eliminating the maintenance costs associated with repairing the Existing Storage Tank; and
Staff Response: There are no maintenance costs associated with repairing the Existing Storage Tank if it is closed.
- 5) providing better protection from contamination and vandalism.
Staff Response: There is no contamination and vandalism if the Existing Storage Tank is closed.

ALJ Question No. 3: Explain why adjustments were made to the categories labeled "Attorney Fees," "Overhead (5%)," and "Contingency."

Staff's Response: First, CWCGV did not explain whether the \$20,000 in Attorney Fees is just for the New Storage Tank or for the entire financial application. It is excessive if it is only for the New Storage Tank. Second, the Company added \$292,186 to the Total Tank Bid of \$710,000 for the 1.0-million gallon storage tank. Therefore, other costs consist of 41.15% of the project costs. It is not reasonable to have Attorney Fees, Overhead, Contingency, and other costs as high as 41.15% of the Total Tank Bid. Staff recommends these adjustments in the event the Commission decides to approve the Company's proposed project to add additional storage.

Recommendations

Staff's recommendations have not changed based on the additional information filed by the Company on July 9, 2014.